



Verizon Communications (VZ)

Updated April 28th, 2018 by Nate Parsh

Key Metrics

Current Price: \$52	5 Year CAGR Estimate: 12.7%	Quality Percentile: N/A
Fair Value Price: \$61	5 Year Growth Estimate: 5.0%	Momentum Percentile: N/A
% Fair Value: 85%	5 Year Valuation Multiple Estimate: 3.1%	Total Return Percentile: N/A
Dividend Yield: 4.6%	5 Year Price Target: \$78	Valuation Percentile: N/A

Overview & Current Events

Verizon Communications was created by a merger between Bell Atlantic Corp and GTE Corp in June, 2000. Verizon operates in the Telecommunications Services sector of the economy and is the largest wireless carrier in the country. Wireless contributes three-quarters of all revenues for the company. Verizon also offers broadband and cable services, which account for about a quarter of sales. The company's network covers ~298 million people and covers 98% of the U.S. Verizon has a market cap of almost \$213 billion.

Verizon reported 1st quarter 2018 earnings results on 4/24/2018. The company earned \$1.17 per share, topping estimates by \$0.06. Revenue grew 6.6% year over year to \$31.77 billion, \$550 million above expectations. Services revenue increased 2.6% and equipment revenues were up 34%. The company added 260,000 retail postpaid connections. Retail postpaid churn was just 1.04%, showing that Verizon is doing a good job of maintaining its customer base. The company expects to begin rolling out its 5G residential broadband services in as many 5 U.S. cities in 2018.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$2.34	\$2.40	\$2.21	\$2.15	\$2.32	\$4.00	\$3.35	\$3.99	\$3.87	\$3.75	\$4.35	\$5.55
DPS	\$1.78	\$1.87	\$1.93	\$1.96	\$2.02	\$2.08	\$2.16	\$2.23	\$2.29	\$2.32	\$2.36	\$3.01

Verizon has seen its earnings per share grow at a rate of almost 5% per year for the past 10 years. The company's guidance calls for a midpoint of \$4.35 per share for 2018. This EPS gain from will come directly from tax reform as the company's effective tax rate should be ~25% going forward. Applying the historical earnings growth rate to the company's guidance for 2018 means that shares of Verizon could earn \$5.55 per share by 2023.

Verizon has increased its dividend for the past 13 years and has a 10-year average growth rate of 3.5%. The company's last increase was announced on 9/7/2017 and resulted in the dividend being raised by 2.2%. Verizon expects tax reform savings to lift cash flow by as much as \$4 billion. This additional savings could result in higher dividend growth going forward. If dividend growth were to match earnings growth, then shares of Verizon could produce \$3.01 in dividends per share.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	13.7	12.7	13.8	17.1	18.1	12.2	14.5	11.8	13.3	12.3	12.0	14.0
Avg. Yld.	5.1%	6.1%	6.3%	5.3%	4.8%	4.3%	4.4%	4.7%	4.5%	4.8%	4.6%	X.X%

Shares of Verizon have an average price to earnings multiple of 14 over the past decade. Based off the current share price and projected 2018 EPS, Verizon has a forward P/E of 12. The forward multiple is lower than the average annual P/E ratio of any year in the past decade which could mean shares are very undervalued. If shares were to return to their average multiple over the past decade, then the stock's multiple could expand 3.1% per year through 2023.

With a 4.6% dividend yield, Verizon offers investors a yield that is more than double that of the S&P 500 and is well above the yield of the 10-year Treasury Bond.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	29%	27.9%	28.4%	28.2%	30.9%	27.6%	33.2%	32.4%	30.5%	29%	29.1%	29.7%
Debt/A	61%	62.9%	60.5%	32.7%	62%	65.2%	94.1%	92.7%	90.2%	82.6%	80.8%	73.4%
Int. Cov.	2.4	5.5	6.3	4.8	5	12.3	4.2	6.9	5.9	5.4	5.5	5.9
Payout	70.1%	77.9%	87.3%	91.2%	87%	52%	64.5%	55.9%	59.2%	62.1%	54.3%	54.2%
Std. Dev.	28.8%	23.6%	20.9%	14.2%	14.6%	17.6%	11.7%	11.6%	19.7%	22.2%	21.4%	18.5%

Verizon's earnings-per-share increased during the last recession, but the company hasn't always demonstrated EPS growth year in and year out. EPS declined 2015-2017. Verizon also has a large debt balance of more than \$113 billion – but its interest coverage ratio is not overly high for a stable telecom. Earnings are expected to be much higher in 2018 and beyond thanks to tax reform. This will help to increase cash flow dramatically, which could be used pay down debt or increase the company's dividend at a higher than average rate. Verizon has also managed to decrease its dividend payout ratio over the past few years, which should give shareholders confidence that the company will be able to maintain and increase its dividend in future years.

Final Thoughts & Recommendation

Verizon's stock is expected to return 12.7% annually through 2023. This return is a combination of earnings growth (5%), dividends (4.6%) and multiple expansion (3.1%). While many might consider Verizon a "defensive stock" due to its high yield and consumer's reliance on cell phones, shares are cheap compared to their historical P/E ratio.

While our expected total return over the next five years is slightly below that of competitor AT&T, we rate shares of Verizon as a buy along with AT&T. Investors looking for yield and growth should consider Verizon.

Total Return Breakdown by Year

